

PERAC AUDIT REPORT



Middlesex Contributory Retirement System

JAN. 1, 2005 - DEC. 31, 2007



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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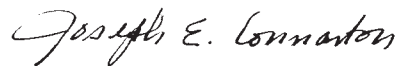
August 5, 2008

The Public Employee Retirement Administration Commission has completed an examination of the Middlesex Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2005 to December 31, 2007. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Richard Ackerson, James Sweeney, and James Tivnan who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Membership

A. PERAC auditors sampled member's deduction rates to determine that correct percentages are being withheld and that the additional 2% deduction is withheld from those members who earn over \$30,000 and were hired after January 1, 1979. The sample yielded a 15% error rate for withholding the correct amount of 2% additional contribution for members earning over \$30,000. Errors were detected in 12% of the member units sampled.

B. Fourteen percent of the governmental unit earnings codes were examined to determine if the earnings were correctly considered regular compensation subject to retirement deductions or should not be considered regular earnings. There were 31 questionable pay codes classified as pensionable earnings. For example, the following descriptions were coded for retirement deductions: "403B Match," "Overtime," and "Police Detail." There were 10 questionable code descriptions coded as not regular earnings qualified for retirement. For example: "Own Vacation", "Vacation Pay", "Miscellaneous Non-Pension". Of the 10 government units examined, 80% had questionable pay descriptions for determining whether they would be considered regular earnings.

Recommendations:

A. The deduction errors must be corrected by the Board and member unit payroll departments. The Board must establish a plan to confirm all members' deductions to ensure compliance with G.L. c 32, § 22 (1)(b) and (1)(b1/2), and PERAC MEMO # 43/1999, defining 2% additional deductions.

B. Based on the high error rate of the sample, it is recommended that all earning codes be reviewed to determine if earnings are classified properly in accordance with Chapter 32, § 1 and PERAC 840 CMR. Corrections must be made where necessary.

Board Response:

A. The Board is in the process of converting to a new computer software program which the Board anticipates will substantially correct the additional 2% deduction over \$30,000 issue, and the Board will continue to correct these errors as they are discovered. The Board plans to continue training classes for the payroll clerks and Treasurers of the seventy (70) member units at which this subject has been addressed in detail.

B. The questionable pay codes noted by PERAC auditors were those which have been submitted to the Board by the member units as part of the aforementioned software conversion. These pay codes have not been implemented in the new software program. The Board has undertaken a review of every pay code utilized by the member units and continues to aggressively review and monitor regular compensation as the law continues to evolve.

2. Buyback Agreements

A reconciliation of the ongoing buyback agreements between the system and members who agreed to purchase creditable service time for a specific term and amount disclosed that approximately a third of these agreements had no payments applied since 2005. The system does not allow for payroll deductions for this purpose. Members, in the absence of any reminder, statement issued or tickler system, did not initiate or render payments to the system or otherwise acknowledge these obligations. These agreements are referenced and discrepancies are resolved prior to finalizing any

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

retirement benefits for these members. However, the aging list indicates an issue that involves the accuracy of the interest calculated on the book value of these agreements and a lack of commitment to the collection process.

Recommendation: The retirement board should reevaluate its policies and recordkeeping functions for buyback agreements. A summary document that discloses the terms and conditions of the arrangement with the member must be generated on a regular basis. The distribution of this statement would serve as a reminder that the agreement was predicated on regular payments to the system and failure to adhere to those terms may require recalculation of the obligation.

Board Response:

The Board will evaluate its policies regarding buyback agreements. The Board suggests that a member's purchase of prior non-contributing service is optional. No retirement allowance has been approved which includes credit for non-contributing service where full payment for the purchase of that service, with updated interest, has not been received.

3. Stale Dated Checks

An inspection of the outstanding items that comprise the bank activity revealed approximately 250 checks had been issued and remain outstanding for more than six months. In addition, there are items that remain unresolved from the 2000 calendar year period. Over 200 of those stale dated checks were written on the checking account used for retiree payments. The regular identification and review of stale dated checks was evidently not a priority, based on our inquiries and discussion with retirement system staff.

Recommendation: Checks outstanding more than six months should be researched so that proper voiding and updating of these items can be completed on a regular and timely basis.

Board Response:

All outstanding stale dated checks are being reviewed by staff, and that review will be conducted on a regular and recurring basis. After review, appropriate action will be taken by the Board.

Final Determination

PERAC auditors will follow-up in six (6) months to ensure that appropriate actions have been taken regarding all audit findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2007	2006	2005
Net Assets Available For Benefits:			
Cash	\$28,977,150	\$34,902,813	\$32,056,524
Fixed Income Securities	0	148,425,751	145,006,685
Equities	0	263,786,347	232,745,022
Pooled Domestic Equity Funds	0	12,070,474	30,585,403
Pooled International Equity Funds	0	75,822,940	85,823,943
Pooled Domestic Fixed Income Funds	0	11,196,331	15,583,236
Pooled International Fixed Income Funds	0	32,734,749	30,830,204
Pooled Alternative Investment Funds	19,773,807	28,571,282	27,078,994
Pooled Real Estate Funds	43,875,256	39,377,414	33,206,165
PRIT Core Fund	699,096,160	67,358,125	0
Interest Due and Accrued	114,884	2,461,827	2,272,277
Accounts Receivable	4,308,746	4,218,780	5,119,111
Accounts Payable	(81,550)	(2,443,525)	(4,329,648)
Total	<u>\$796,064,453</u>	<u>\$718,483,308</u>	<u>\$635,977,915</u>
Fund Balances:			
Annuity Savings Fund	\$291,781,696	\$272,852,411	\$253,438,128
Annuity Reserve Fund	80,622,292	79,338,834	80,360,321
Pension Fund	18,503,646	0	(46,950,181)
Military Service Fund	85,753	41,367	43,924
Expense Fund	0	0	0
Pension Reserve Fund	405,071,066	366,250,696	349,085,724
Total	<u>\$796,064,453</u>	<u>\$718,483,308</u>	<u>\$635,977,915</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2004)	\$235,701,034	\$79,323,629	(\$31,603,283)	\$50,242	\$0	\$314,977,084	\$598,448,707
Receipts	32,361,142	2,362,327	53,601,781	291	7,031,217	34,035,190	129,391,947
Interfund Transfers	(9,179,902)	9,134,333	(21,271)	(6,609)	0	73,449	(0)
Disbursements	(5,444,146)	(10,459,968)	(68,927,409)	0	(7,031,217)	0	(91,862,739)
Ending Balance (2004)	253,438,128	80,360,321	(46,950,181)	43,924	0	349,085,724	635,977,915
Receipts	33,511,699	2,362,015	61,136,059	244	8,178,474	74,603,950	179,792,440
Interfund Transfers	(8,705,044)	8,366,487	57,780,335	(2,800)	0	(57,438,978)	0
Disbursements	(5,392,372)	(11,749,989)	(71,966,213)	0	(8,178,474)	0	(97,287,047)
Ending Balance (2005)	272,852,411	79,338,834	0	41,367	0	366,250,696	718,483,308
Receipts	35,928,757	2,360,660	65,578,920	72,423	8,483,722	65,972,748	178,397,229
Interfund Transfers	(11,531,520)	10,762,796	27,947,355	(26,253)	0	(27,152,378)	0
Disbursements	(5,467,952)	(11,839,998)	(75,022,629)	(1,783)	(8,483,722)	0	(100,816,085)
Ending Balance (2006)	<u>\$291,781,696</u>	<u>\$80,622,292</u>	<u>\$18,503,646</u>	<u>\$85,753</u>	<u>\$0</u>	<u>\$405,071,066</u>	<u>\$796,064,453</u>

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2007	2006	2005
Annuity Savings Fund:			
Members Deductions	\$30,786,145	\$29,218,783	\$27,698,271
Transfers from Other Systems	2,700,590	2,075,698	2,269,480
Member Make Up Payments and Re-deposits	837,478	732,974	1,004,589
Investment Income Credited to Member Accounts	<u>1,604,544</u>	<u>1,484,243</u>	<u>1,388,801</u>
Sub Total	<u>35,928,757</u>	<u>33,511,699</u>	<u>32,361,142</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>2,360,660</u>	<u>2,362,015</u>	<u>2,362,327</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	1,170,404	1,186,302	1,459,818
Pension Fund Appropriation	<u>64,408,516</u>	<u>59,949,757</u>	<u>52,141,963</u>
Sub Total	<u>65,578,920</u>	<u>61,136,059</u>	<u>53,601,781</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	72,329	0	0
Investment Income Credited to the Military Service Fund	<u>93</u>	<u>244</u>	<u>291</u>
Sub Total	<u>72,423</u>	<u>244</u>	<u>291</u>
Expense Fund:			
Investment Income Credited to the Expense Fund	<u>8,483,722</u>	<u>8,178,474</u>	<u>7,031,217</u>
Sub Total	<u>8,483,722</u>	<u>8,178,474</u>	<u>7,031,217</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	183,983	219,960	156,187
Interest Not Refunded	50,522	49,242	60,670
Miscellaneous Income	297,123	1,240,152	928,661
Excess Investment Income	<u>65,441,120</u>	<u>73,094,596</u>	<u>32,889,672</u>
Sub Total	<u>65,972,748</u>	<u>74,603,950</u>	<u>34,035,190</u>
Total Receipts	<u>\$178,397,229</u>	<u>\$179,792,440</u>	<u>\$129,391,947</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2007	2006	2005
Annuity Savings Fund:			
Refunds to Members	\$2,725,500	\$2,566,927	\$2,560,164
Transfers to Other Systems	2,742,453	2,825,445	2,883,982
Sub Total	<u>5,467,952</u>	<u>5,392,372</u>	<u>5,444,146</u>
Annuity Reserve Fund:			
Annuities Paid	11,751,750	11,637,046	10,382,360
Option B Refunds	88,248	112,943	77,608
Sub Total	<u>11,839,998</u>	<u>11,749,989</u>	<u>10,459,968</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	54,430,397	51,389,942	49,998,985
Survivorship Payments	3,224,173	3,155,375	2,976,923
Ordinary Disability Payments	1,208,200	1,188,139	1,121,918
Accidental Disability Payments	9,832,717	10,262,160	9,089,350
Accidental Death Payments	2,216,960	2,246,805	2,261,392
Section 101 Benefits	643,069	620,835	552,289
3 (8) (c) Reimbursements to Other Systems	2,222,355	1,875,785	1,733,776
State Reimbursable COLA's Paid	1,244,758	1,227,172	1,192,774
Sub Total	<u>75,022,629</u>	<u>71,966,213</u>	<u>68,927,409</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>1,783</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	11,750	11,250	12,000
Salaries	1,260,893	1,211,914	1,140,041
Legal Expenses	831,769	1,010,381	564,184
Medical Expenses	489	150	555
Travel Expenses	19,305	21,251	28,831
Administrative Expenses	986,125	837,865	741,125
Furniture and Equipment	76,231	76,231	76,231
Management Fees	4,954,588	4,065,273	3,463,773
Custodial Fees	118,189	580,658	528,152
Consultant Fees	24,583	147,500	147,500
Fiduciary Insurance	199,800	216,000	328,824
Sub Total	<u>8,483,722</u>	<u>8,178,474</u>	<u>7,031,217</u>
Total Disbursements	<u>\$100,816,085</u>	<u>\$97,287,047</u>	<u>\$91,862,739</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2007	2006	2005
Investment Income Received From:			
Cash	\$2,276,708	\$1,858,105	\$629,917
Fixed Income	2,773,812	9,795,612	9,106,286
Equities	396,295	3,211,860	2,577,052
Pooled or Mutual Funds	21,341,825	20,392,393	8,664,290
Commission Recapture	<u>0</u>	<u>26,593</u>	<u>49,809</u>
Total Investment Income	<u>26,788,639</u>	<u>35,284,564</u>	<u>21,027,353</u>
Plus:			
Realized Gains	60,684,072	15,306,596	5,481,998
Unrealized Gains	62,423,818	69,241,019	53,640,663
Interest Due and Accrued - Current Year	<u>114,884</u>	<u>2,461,827</u>	<u>2,272,277</u>
Sub Total	<u>123,222,774</u>	<u>87,009,443</u>	<u>61,394,937</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	(6,566)	(1,703,079)	(1,154,777)
Realized Loss	(3,765,566)	(5,068,469)	(7,305,054)
Unrealized Loss	(65,887,315)	(28,130,611)	(28,183,916)
Interest Due and Accrued - Prior Year	<u>(2,461,827)</u>	<u>(2,272,277)</u>	<u>(2,106,236)</u>
Sub Total	<u>(72,121,275)</u>	<u>(37,174,435)</u>	<u>(38,749,983)</u>
Net Investment Income	<u>77,890,138</u>	<u>85,119,572</u>	<u>43,672,307</u>
Income Required:			
Annuity Savings Fund	1,604,544	1,484,243	1,388,801
Annuity Reserve Fund	2,360,660	2,362,015	2,362,327
Military Service Fund	93	244	291
Expense Fund	<u>8,483,722</u>	<u>8,178,474</u>	<u>7,031,217</u>
Total Income Required	<u>12,449,019</u>	<u>12,024,976</u>	<u>10,782,635</u>
Net Investment Income	<u>77,890,138</u>	<u>85,119,572</u>	<u>43,672,307</u>
Less: Total Income Required	<u>12,449,019</u>	<u>12,024,976</u>	<u>10,782,635</u>
Excess Income To The Pension Reserve Fund	<u>\$65,441,120</u>	<u>\$73,094,596</u>	<u>\$32,889,672</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2007			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$28,977,150	3.7%	100%
Pooled Alternative Investment Funds	19,773,807	2.5%	7.5%
Pooled Real Estate Funds	43,875,256	5.5%	7.5%
PRIT Core Fund	699,096,160	88.3%	100%
Grand Total	<u>\$791,722,373</u>	<u>100.0%</u>	

For the year ending December 31, 2007, the rate of return for the investments of the Middlesex Retirement System was 10.69%. For the five-year period ending December 31, 2007, the rate of return for the investments of the Middlesex Retirement System averaged 10.73%. For the twenty three-year period ending December 31, 2007, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Middlesex Retirement System was 9.85%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Middlesex Retirement System has committed 100% of its investments to PRIT for a five year period and current investment regulations do not apply.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Middlesex Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$667.92 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Middlesex Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

January 30, 2002

Call Firefighters: Call Firefighters of a member unit within the Middlesex Retirement System are not entitled to membership in the Middlesex Retirement System by virtue of their Call Fire Fighter employment. Upon establishing membership in the Middlesex Retirement System, a member who has rendered prior service as a call fire fighter will be credited with service to be determined by the Board, subject to the applicable provisions of G.L. c. 32, § 4(2)(b) and 4(2)(b½).

August 18, 2000

Employment Service Rendered Under Federal Grants: Employment Service Rendered Under Federal Grants After further review of the relevant provisions of G.L. c. 32, further review of recent administrative and judicial decisions rendered regarding membership and creditable service, and further review of prior determinations and promulgations of the Public Employee Retirement Administration Commission relative to recovery of pension costs from federal grants, the Middlesex Retirement Board hereby adopts the following supplemental regulations.

1. Employees of a member unit of the Middlesex Retirement System whose compensation is paid through a federal grant (e.g., CETA, EAP, Title I, LEAA,) and whose employment terms and conditions would otherwise qualify them for membership, are eligible for membership in the Middlesex Retirement System.
2. Active members of the Middlesex Retirement System who previously rendered service in a member unit but were excluded or omitted from membership in the Middlesex Retirement System due solely to the federal source of payment of the employees' compensation, and whose employment terms and conditions would otherwise qualify them for membership in the Middlesex Retirement System, are entitled to membership in the system retroactive to the date of such exclusion or omission, upon full and complete payment into the retirement system of the appropriate retirement contribution. Such members are entitled to the benefits of membership which were in effect at the time of such exclusion or omission.
3. Active members of the Middlesex Retirement System who have rendered prior employment service in a non-member unit and whose compensation for such service was paid through a federal grant, are eligible to purchase creditable service for such prior employment service, if such prior employment service, if rendered in a member unit, would have been eligible to be purchased.

October 21, 1999:

Motor Vehicle Use: A member who is provided a motor vehicle for personal use by the employer as a necessary and usual requirement of the member's employment shall be credited annually as regular compensation an amount which shall be determined by adopting the taxable value of same as set by the member's employer, and as appearing on the member's W-2 form. Said regular

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

compensation shall be approved upon payment of appropriate retirement contribution by the member. A member who receives a standard and regularly paid allowance from the employer for use of the member's personal motor vehicle in the course of performing the member's duties, as appearing on the member's W-2 form, shall be credited annually with the additional regular compensation in the amount of said allowance upon payment of appropriate retirement contribution by the member. Varying, sporadic or irregular reimbursement by the employer to a member for use of the member's motor vehicle shall not be considered regular compensation.

August 12, 1996

Membership: Any employee rendering services in excess of ninety (90) working days shall be a member of the retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Chairman, who shall be elected by the other four board members, a second member elected by the Advisory Council, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Chairman:	Thomas F. Gibson		
Advisory Council Member:	Brian P. Curtin	Term Expires:	12/31/09
Elected Member:	John Brown	Term Expires:	12/31/08
Elected Member:	Edgar W. McLean	Term Expires:	12/31/10
Appointed Member:	James M. Gookin	Term Expires:	12/16/10

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex-officio Member:)	\$10,000,000 Fiduciary
Elected Member:)	RLI Insurance Company
Appointed Member:)	\$1,000,000 Fidelity
Staff Employee:)	National Union Fire Insurance

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the The Segal Co. as of January 1, 2006.

The actuarial liability for active members was	\$646,287,816
The actuarial liability for retired and inactive members was	<u>718,295,153</u>
The total actuarial liability was	1,364,582,969
System assets as of that date were	<u>653,156,866</u>
The unfunded actuarial liability was	<u>\$711,426,103</u>
The ratio of system's assets to total actuarial liability was	47.9%
As of that date the total covered employee payroll was	\$318,738,544

The normal cost for employees on that date was	8.6% of projected payroll
The normal cost for the employer was	4.1% of projected payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return:	8.25% per annum
Rate of Salary Increase:	Varies

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2006

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2006	\$653,156,866	\$1,364,582,969	\$711,426,103	47.9%	\$318,738,544	223.2%
1/1/2004	\$618,163,380	\$1,223,828,127	\$605,664,747	50.5%	\$297,459,982	203.6%
1/1/2002	\$599,699,143	\$1,020,828,178	\$421,129,035	58.7%	\$280,740,439	150.0%
1/1/2000	\$570,263,467	\$905,280,472	\$335,017,005	63.0%	\$253,228,818	132.3%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Retirement in Past Years										
Superannuation	162	181	156	185	240	297	191	155	141	199
Ordinary Disability	2	3	1	0	3	9	7	4	2	1
Accidental Disability	5	6	4	11	12	10	10	12	9	6
Total Retirements	169	190	161	196	255	316	208	171	152	206
Total Retirees, Beneficiaries and Survivors	4,503	4,531	4,501	4,519	4,589	4,703	4,696	4,780	4,778	4,783
Total Active Members	6,328	6,601	7,095	7,718	7,818	7,612	7,427	8,716	8,754	8,877
Pension Payments										
	\$27,547,942	\$29,487,123	\$31,695,314	\$33,951,518	\$37,368,563	\$44,224,108	\$47,692,309	\$49,998,985	\$51,389,942	\$54,430,397
Superannuation										
Survivor/Beneficiary Payments	1,025,777	2,234,640	2,369,092	2,457,098	2,515,901	2,733,341	2,885,450	2,976,923	3,155,375	3,224,173
Ordinary Disability	2,105,688	1,034,514	1,053,360	1,058,259	1,002,734	1,049,566	1,112,060	1,121,918	1,188,139	1,208,200
Accidental Disability	6,683,850	7,026,732	7,339,433	7,551,654	7,993,227	8,486,056	8,964,388	9,089,350	10,262,160	9,832,717
Other	2,092,874	2,199,250	2,307,918	4,360,597	4,819,891	5,019,215	4,902,309	5,740,231	5,970,598	6,327,142
Total Payments for Year	<u>\$39,456,131</u>	<u>\$41,982,259</u>	<u>\$44,765,117</u>	<u>\$49,379,126</u>	<u>\$53,700,316</u>	<u>\$61,512,286</u>	<u>\$65,556,515</u>	<u>\$68,927,409</u>	<u>\$71,966,213</u>	<u>\$75,022,629</u>

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